

Message Text

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ACTION DLOS-06

INFO OCT-01 ISO-00 AF-08 ARA-06 EA-07 EUR-12 NEA-10 FEA-01

ACDA-07 AGR-05 AID-05 CEA-01 CEQ-01 CG-00 CIAE-00

CIEP-01 COME-00 DODE-00 DOTE-00 EB-07 EPA-01 ERDA-05

FMC-01 TRSE-00 H-02 INR-07 INT-05 IO-13 JUSE-00 L-03

NSAE-00 NSC-05 NSF-01 OES-06 OMB-01 PA-01 PM-04

PRS-01 SP-02 SS-15 USIA-06 SAL-01 /158 W

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R 172142Z SEP 76

FM USMISSION USUN NY

TO SECSTATE WASHDC 9242

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FROM LOS DEL

E.O. 11652: GDS

TAGS: PLOS

SUBJ: LOS CONFERENCE--GROUP OF FIVE MEETING ON FINANCING

THE ENTERPRISE

REF: USUN 3681

SUMMARY: GROUP OF FIVE MET SEPTEMBER 13 TO DISCUSS U.S.

DRAFT PRINCIPLES FOR FINANCING THE ENTERPRISE (TEXT IN REFTEL).

U.S.S.R. INDICATED SERIOUS PROBLEMS WITH COMPLUSORY STATE

ASSESSMENTS AND SUGGESTED STATES WHOSE NATIONALS EXPLOITED

THE AREA SHOULD BEAR THE BUDEN OF FINANCING ENTERPRISE.

U.K. EMPHASIZED ITS VIEW THAT BASIC THRUST OF EFFORTS TO

MAKE THE ENTEPRRISE FUNCTIONAL SHOULD BE ON FORCED TRANSFER

OF TECHNOLOGY (THROUGH MANDATORY/JOINT VENTURES)

RATHER THAN ON FINANCING. ALL PARTICIPANTS MADE SPECIFIC

COMMENTS ON INDIVIDUAL PRINCIPLES CONTAIINED IN U.S. DRAFT.

WE AGREED TO TAKE COMMENTS INTO CONSIDERATION AND

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DRAFT NEW VERSION OF PRINCIPLES TO REFLECT THESE COMMENTS TO

THE EXTENT POSSIBLE FOR SUBMISSION TO GROUP LATER THIS WEEK.
WE HAVE ALSO GIVEN SEPARATE COPY OF PRINCIPLES TO FRG REPS.
END SUMMARY.

1. U.S. DISTRIBUTED ITS LIST OF PRINCIPLES (REFTEL) AND INVITED COMMENT. IN RESPONSE TO U.S. REQUEST FOR PRELIMINARY COMMENTS ON THE ACCEPTABILITY OF THIS APPROACH, THE U.S.S.R. AND THE U.K. HAD THE MOST SERIOUS RESERVATIONS. THE U.S.S.R. (ROMANOV AND KAZMAN) SAID FLATLY THAT IT WAS NOT ACCEPTABLE TO HAVE THE ENTERPRISE FINANCED BY COMPULSORY STATE ASSESSMENTS. INSTEAD, THE SOVIETS SUGGESTED THAT CONTRACTORS AND STATES SPONSORING CONTRACTORS SHOULD LOAN THE ENTERPRISE THE NECESSARY FUNDS WITH OTHER STATES MAKING "VOLUNTARY CONTRIBUTIONS" TO THE ENTERPRISE IF THEY SO DESIRED. THE U.K. (WOOD) AGREED THAT THE BURDEN SHOULD FALL ON THOSE STATES AND FIRMS WHO EXPLOITED THE SEABED AND NOT ON ALL STATES, AND THAT IN ANY CASE MAJOR EMPHASIS SHOULD BE ON REQUIRED TRANSFER OF TECHNOLOGY RATHER THAN FINANCING. JAPAN (KOIKE) SAID IT THOUGH THE PROPOSAL WAS "FAIR BUT HARD TO SELL" AND EXPRESSED CONCERN THAT ITS FINANCE MINISTRY WOULD BE VERY CONCERNED THAT THIS PLAN REPRESENTED ONLY AN OPENING POSITION AND IN THE END THE ANTE WOULD BE RAISED CONSIDERABLY.

2. THE U.S. RESPONDED THAT NONE IN GROUP WANTED TO FINANCE THE ENTERPRISE BUT IF THIS WAS THE PRICE FOR GUARANTEED STATE AND PRIVATE ACCESS AND AN OVERALL LOS TREATY, IT WAS PROBABLY A SMALL PRICE TO PAY. WE SAID THAT WE WOULD BE GLAD TO LISTEN TO ANY OTHER PROPOSALS, BUT WE WOULD HAVE GREAT DIFFICULTY WITH A FINANCING SYSTEM THAT PLACED THE BURDEN ENTIRELY ON THE EARLY EXPLOITERS OF THE SEABED. WE PROMISED TO STUDY THE COMMENTS AND ATTEMPT TO COME UP WITH A NEW SET OF PRINCIPLES THAT MIGHT SOLVE SOME OF THE PROBLEMS AND WHICH WE COULD DISCUSS AT AN INTERSESSIONAL G-5 MEETING. USDEL WILL BE FORWARDING SHORTLY TO DEPT NEW VERSION OF PRINCIPLES BASED ON COMMENTS RECEIVED.

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3. FOLLOWING IN PARAGRAPH-BY-PARAGRAPH COMMENTS OF GROUP OF FIVE, KEYED TO TEXT CONTAINED REFTEL:

- I. ALL DELS AGREED WITH PRINCIPLE OF LIMITING FINANCING TO FIRST OPERATION.
- II. SOVIETS MAINTAINED IT WOULD HELP THEM TO STRESS EQUALITY OF STATE-RUN (AS OPPOSED TO PURELY

COMMERCIAL) MINING OPERATION TO ADD QUOTE BY
STATES OR PRIVATE PARTIES UNQUOTE AT END OF
THIS PARAGRAPH. OTHERS ALSO QUESTIONED WHAT
THE PRACTICAL EFFECT OF THIS PARAGRAPH
MIGHT BE. WOULD IT HOLD UP COMMERCIAL MINING
OPERATIONS UNTIL ENTERPRISE WAS FUNCTIONING (WE SAID NO)?
WERE START-UP OPERATIONS REFERRED TO THOSE
WHICH U.S. IN PARAGRAPH V (A) BELOW ENVISAGED AS BEING COVERED
BY PAID-IN CAPITAL, WHEREAS ACTUAL MINING OPERATIONS
REFERRED TO THOSE REFERRED TO IN PARA V (B) BELOW
AS COVERED BY CALLABLE CAPITAL (WE SAID YES). WOULD
RESULTING FINANCIAL OBLIGATIONS START WITH SIGNATURE OF
TREATY, IF THIS WAS THE CASE?

III. U.K. REP, AS NOTED EARLIER, PLACED HEAVIEST
EMPHASIS ON TRANSFER OF TECHNOLOGY, AND FELT
IT WAS UNREALISTIC TO SUGGEST THIS TRANSFER COULD BE TAKEN
OF BY FINANCING ALONE. HE DOUBTED
WHETHER FIRMS WITH EXCLUSIVE RIGHTS TO
SOME TECHNOLOGY WOULD BE WILLING TO PART
WITH IT AT OTHER THAN EXHORBITANT PRICES, OR
POSSIBLY AT ANY PRICE, UNLESS FORCED BY
THE TREATY TO DO SO. JAPANESE REP TOOK
OPPOSITE TACK, EXPRESSING HOPE THAT PROVISION
IN NO WAY IMPLIED FORCED TRANSFER OF
TECHNOLOGY. SOVIETS SUGGESTED PRINCIPLE
WOULD BE IMPROVED IF IT READ QUOTE ATTRACT
AND/OR ACQUIRE UNQUOTE RATHER THAN SIMPLY
QUOTE ATTRACT AND ACQUIRE UNQUOTE.

IV. SEVERAL G-5 MEMBERS NOTED THAT, WHILE THEY
APPROVED OF THIS PRINCIPLE OF NO UNDUE
COMPETITIVE ADVANTAGES TO THE ENTERPRISE, IT SEEMED TO BE
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CONTRADICTORY TO THE MAJOR THRUST OF THE U.S.
PROPOSAL TO FINANCE THE ENTERPRISE. U.S. EXPLAINED
THAT WORD QUOTE UNDUE UNQUOTE AS MEANT TO COVER THIS POINT,
WHICH WE CONSIDERED TO MEAN ADDITIONAL
TO ADVANTAGES GAINED FROM THE FINANCING SCHEME.
THE U.K. REP AND OTHERS NOTED THAT THEY
CONSIDERED THIS PROPOSAL TO IMPLY IN ANY CASE THAT
THE BULK OF ENTERPRISE FINANCING WOULD BE
THROUGH LOANS, WHICH WOULD BE REPAYABLE
AND WITH INTEREST.

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ACTION DLOS-06

INFO OCT-01 ISO-00 AF-08 ARA-06 EA-07 EUR-12 NEA-10 FEA-01

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V. ALL G-5 REPRESENTATIVES EMPHASIZED THEIR LACK OF
INSTRUCTIONS TO AGREE TO ANY SORT OF FINANCING
PROPOSAL, INCLUDING THAT LAID OUT IN PARA V.
AS NOTED ABOVE, THE SOVIET REP IN PARTICULAR
OBJECTION TO ANY SCHEME INVOLVING MANDATORY
ASSESSMENTS AND THEREFORE SPECIFICALLY OBJECTED TO
THE WORD QUOTE ALL UNQUOTE IN THE OPENING SENTENCE.

HE NOTED - HOW SERIOUSLY IT WAS DIFFICULT TO
JUDGE - SOVIETS WERE THINKING MORE OF A
SYSTEM OF LOANS FROM THE PRIVATE AND STATE
COMPANIES WHO WOULD BE AWARDED CONTRACTS UNDER THE EXPLOITATION
SYSTEM; THEN THOSE WHO BENEFITED WOULD PAY THE COSTS OF
THE ENTERPRISE. U.K. REP ALSO INDICATED HIS PREFERENCE FOR
A SCHEME EMPHASIZING FORCED TRANSFER OF
TECHNOLOGY RATHER THAN FINANCING. JAPANESE REP PARTICULARLY
CONCERNED AT COSTS WHICH HE ASKED U.S. TO ESTIMATE ROUGHLY.
WE INDICATED TOTAL COSTS MIGHT AMOUNT TO ABOUT \$700
MILLION, OF WHICH PAID-UP THOSE WOULD REPRESENT \$110 TO
150 MILLION.

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V. (A) SOVIET OBJECTED TO INCLUSION OF QUOTE PROSPECTING UNQUOTE UNDER COSTS, MAINTAINING THAT BANKING SYSTEM FOR SITES MEANT THAT PRIVATE COMPANIES WOULD CARRYOUT PROSPECTING AND THAT INCLUSION OF THIS ITEM MIGHT PREJUDICE OUR INSISTENCE ON PARALLEL SYSTEM INCLUDING BANKED SITES. US REPLIED THAT EVEN AFTER SITES IDENTIFIED AND BANKED CONSIDERABLE PROSPECTING WITHIN THE SITE MIGHT BE REQUIRED, ALTHOUGH TERMINOLOGY COVERING SUCH ACTIVITY VARIED AND WE MIGHT BE ABLE TO DELETE OR CHANGE THIS WORD. U.K. REP SUGGESTED THAT IT MIGHT BE USEFUL TO INDICATE SUB-PARA V(A) REFERRED ONLY TO START-UP AND NOT OPERATIONAL COSTS, SINCE THE SOURCE OF FINANCING CONSIDERED THERE WAS STRICTLY PAID-IN CAPITAL.

(B) SOME G-5 REPRESENTATIVES SUGGESTED THIS PARAGRAPH MIGHT BE EXPANDED TO LIST IN COMPREHENSIVE FASHION, AS WAS DONE IN SUBPARA V(A), WHAT ACTIVITIES MIGHT BE CARRIED OUT UNDER THE FINANCING PROVIDED IN THIS SUB-PARA. SOVIET, JAPANESE, AND U.K. ALL SUGGESTED INTENTIONS IN THIS PARAGRAPH WOULD BE CLARIFIED BY SPECIFICALLY INDICATING THAT GUARANTEES FOR LOANS WERE INTENDED THROUGH THE SYSTEM OF CALLABLE CAPITAL ENVISAGED.

VI. SOVIETS AGAIN OBJECTED TO REFERENCE TO QUOTE ALL UNQUOTE STATES NOTING THAT MORE ACCEPTABLE LANGUAGE WOULD READ QUOTE ALL STATES WHICH SPONSOR COUNTRIES RECEIVING CONTRACTS UNQUOTE. U.K. SUGGESTED IT BE MADE CLEAR THAT BURDEN-SHARING REFERRED TO COVERED BOTH FINANCING QUOTE AND GUARANTEES UNQUOTE. U.K. ALSO RAISED QUESTION OF 20 PERCENT U.S. CONTRIBUTION REFERRED TO IN SECOND SENTENCE, NOTING THAT UNDER UN SCALE OF ASSESSMENTS U.S. SHARE WOULD BE HIGHER. OTHERS ASKED WHETHER IN FACT U.S. WAS SUGGESTING A UN SCALE OF ASSESSMENTS AS A BASIS FOR BURDEN-SHARING. U.S. NOTED ADVANTAGES OF USING AGREED SCALE WHICH INCLUDED ALL STATES, BUT ALSO NOTED THAT INTERNATIONAL FINANCIAL INSTITUTIONS HAD DIFFERENT SCALES IN WHICH U.S. SHARE WAS CONSIDERABLY LOWER. MATTER WAS ONE WHICH WE ASSUMED WOULD BE NEGOTIATED. SEVERAL DELS NOTED CONNECTION OF FINANCIAL BURDENS IN THIS PARA TO SYSTEM

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OF CONTROL REFERRED TO IN PARA VIII BELOW.

VII. ALL DELS AGREED IT WOULD BE DESIRABLE TO ADD AFTER PHRASE QUOTE FUNDS OBTAINED FROM THE AUTHORITY UNQUOTE THE WORDS QUOTE RESULTING FROM CONTRACT OPERATIONS UNQUOTE IN ORDER TO AVOID ANY IMPLICATION

THAT STATE SUBSCRIPTIONS TO THE AUTHORITY COULD BE USED TO HELP FINANCING OPERATIONS OF THE ENTERPRISE. THE SOVIETS AT FIRST OBJECTED TO CONCEPT OF DONATIONS THEN LATER ABANDONED THIS OPPOSITION WHEN IT BECAME CLEAR THAT THEY THEMSELVES WERE NOT PREPARED TO HELP FINANCE ENTERPRISE. MOST DELS FELT THAT THIS PARAGRAPH SHOULD APPLY TO ALL OPERATIONS OF THE ENTERPRISE AND NOT JUST THE FIRST ONE, AND IT WAS SUGGESTED THAT AN ADDITIONAL PARAGRAPH INDICATING THIS MIGHT BE DESIRABLE.

VIII. SOVIETS SUGGESTED WORD QUOTE APPROPRIATE UNQUOTE BE INSERTED BEFORE THE WORD QUOTE CONTROL UNQUOTE. ALTHOUGH NOT BOLDLY STATED, IT WAS CLEAR THAT THIS REFLECTED THEIR DESIRE TO RETAIN A SOVIET VOICE OVER THE ENTERPRISE VIA THE COUNCIL EVEN IF THEY DID NOT CONTRIBUTE TO FINANCING OF THE ENTERPRISE. U.S. SAID WE COULD ENVISAGE A TWO-LAYER SYSTEM OF CONTROL; THE FIRST WOULD BE REPRESENTATION AND INFLUENCE IN THE ENTERPRISE'S GOVERNING BOARD IN PROPORTION TO FINANCING CONTRIBUTIONS, AND THE SECOND IN THE RESPONSIBILITY OF THE COUNCIL TO OVERSEE ENTERPRISE OPERATIONS. IT WAS ALSO NOTED THAT A CONTROL SYSTEM FOR THE ENTERPRISE LINKED TO FINANCIAL CONTRIBUTIONS WOULD BE LIMITED ONLY TO THE FIRST OPERATIONS, SINCE NO FINANCING BEYOND THAT POINT WAS ENVISAGED.

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